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TAGS: [ECON](#) [KPRV](#) [ENRG](#) [PGOV](#) [PREL](#) [YI](#)  
SUBJECT: KOSOVO: POOR POE BOARD NOMINATIONS RAISE CONCERNS  
ABOUT THE INTEGRITY AND OVERSIGHT OF PUBLIC UTILITIES

REF: A. PRISTINA 260

1B. 06 PRISTaP\r-to the board of directors for the publicly-owned enterprises (POEs) on May 14 has raised concerns about the government's commitment to sound corporate governance practices, as well as UNMIK's own commitment to exercise proper oversight of POEs. There are clear divisions within UNMIK between the senior leadership, who want to pull back and give the PISG more authority to make decisions, and the Kosovo Trust Agency (KTA) and UNMIK's Pillar IV, which want to exercise greater oversight to protect POEs and other economic sectors from political influence. On a positive note, the European Commission will provide an advisor to Kosovo to help draft legislation to establish corporate governance structures in accordance with OECD principles. Until this legislation is drafted and enacted, USOP will continue to remind both UNMIK and the PISG to take seriously their respective responsibilities in order to protect the integrity and viability of POEs, which are important to Kosovo's economic development because they will attract serious foreign investment. End Summary.

UNMIK RELUCTANT TO EXERCISE ITS AUTHORITY DUE TO ITS SHORT-TERM STATUS AND RELATIONS WITH PISG...

12. (C) Prior to a May 14 Kosovo Trust Agency (KTA) board meeting to approve nominees to Kosovo's publicly owned enterprises (POEs), Econoff met on May 9 with Paul Acda, Head of UNMIK's Pillar IV, and Andreas Wittkowsky, Deputy Head of Pillar IV, to raise concerns about nominating overtly political or unqualified candidates and to urge UNMIK to exercise its authority to enforce KTA's guidelines. Acda said that at a recent meeting with the SRSG Joaquim Ruecker and PDSRSG Steven Schook to discuss the nominations, he was told by Ruecker not to be "too purist" regarding this process. Despite concerns from the U.S., World Bank and others that the proposed presence of Minister of Energy and Mines (MEM) Ethem Ceku on the Kosovo Energy Corporation (KEK) board violated good governance practices, Acda noted that the SRSG and PDSRSG were in favor of electing Ceku to the board due to the precedent already established in 2005, when Ruecker (as Head of Pillar IV) and the minister were allowed to sit on the KEK board temporarily due to "emergency circumstances," which they argued were still in place. (Note: Ceku's presence on the board presents conflict of interest issues regarding his ministry's involvement in the large "Kosovo C" energy sector development tender and the internationally-recognized public policy practice of not allowing a ministry to administer a public utility. Ceku is also actively involved in politics as a high-ranking member

of the Alliance for the Future of Kosovo (AAK) party. End Note) Acda maintained that h%4QTQQsive posture on this issue because, as they put it, QQ]fg\_the final status process reaches a conclusion, and senior UNMIK leadership does not want create any unnecessary problems with Kosovar leaders."

...BUT OTHER UNMIK OFFICIALS BELIEVE THAT THEY HAVE A RESPONSIBILITY TO DO THEIR JOBS

¶3. (C) There are UNMIK officials who disagree, however, and believe that the UN should take a more forceful role, even its waning days, to ensure proper governance standards are upheld in Kosovo. Jim Wasserstrom, Head of UNMIK's Office of Oversight for POEs, noted to USOP that he has raised concerns about overtly political and unqualified POE board nominations with the SRSG's Office, the Office of Legal Affairs, and Pillar IV. He noted disappointment with UNMIK's weak posture, saying that what the UN does (or does not do) now to ensure proper POE governance will impact public utilities in the next few years. In another conversation, Chiara Bronchi, Pillar IV's (economic policy) Director of Fiscal Affairs and a KTA Board member, expressed her frustration with senior UNMIK leadership on this issue and described them as being in "check-out mode" on nearly all relevant economic concerns, including for example providing KEK serious support to improve electricity bill collection rates.

KTA BOARD APPROVES QUESTIONABLE PISG NOMINEES FOR POE BOARDS WITH LIMITED UNMIK OVERSIGHT

¶4. (C) With this as background, the KTA held its extraordinary May 14 board of directors meeting to approve new boards of directors for the following POEs, based on PISG recommendations: KEK, Post and Telecom of Kosovo (PTK), Pristina International Airport (PIA), and Kosovo Railways. The KTA guidelines require that board members have at least five years of relevant experience in that particular field or another comparable profession, and that POE board member candidates have no active involvement in politics. The KTA Board approved the nominations of MEM Ethem Ceku, Minister of Finance and Economy Haki Shatri, Rexhepi, and two KTA officials (internationals) as KEK board members. According to an internal KTA memo which vetted each candidate and made recommendations about their eligibility as board members, neither Ceku or Rexhepi met KTA's qualifications based on the two criteria of relevant professional experience and no active involvement in politics. (Note: Shatri was appointed to the KEK board via general consensus because of the importance of KEK as a consumer of Kosovo budgetary resources. End Note)

¶5. (C) Mindful that they were violating the guidelines for nominating POE boards of directors and that this was not a best practice, the KTA board purposely passed a resolution stating that the selection of the new KEK board was based on an emergency situation in the energy sector and noting that the nominees would serve only until the end of the year and that this decision would not serve as a precedent. The KTA board also voted to provide special oversight of the KEK board in order to try to prevent any heavy-handed political interference in the running of the energy utility.

¶6. (C) On other POE board nominee decisions, the KTA board rejected two PISG nominees for the PIA board and recommended two reputable internationals, but one questionable Kosovar was elected: Nasser Osmani, a member of the Kosovo Assembly (Democratic League of Kosovo (LDK) party) and chairman of the Budget and Finance Committee. Regarding the PTK board, the KTA board rejected two questionable nominees, in particular Ramiz Lladrovci, a USG E.O. listee, after quiet and early USOP intercession with KTA board members. The KTA board rejected two nominees for the Kosovo Railways board and recommended one qualified Kosovar Albanian professional, one minority candidate (ethnic Turkish leader Mahir Yagcilar, also a member of the Kosovo Assembly) and KTA Managing Director Jasper Dick. On June 7 the KTA board will vote to approve the replacement nominees for the PTK, PIA and Kosovo

Railways boards.

EUROPEAN COMMISSION TO PROVIDE TECHNICAL ASSISTANCE TO HELP  
DRAFT LAW ON POE CORPORATE GOVERNANCE

17. (C) On a positive note, Wasserstrom said that the European Commission (EC) will hire an expert to help Kosovo draft a law on POE governance in accordance with Organization of Economic Cooperation and Development (OECD) principles of corporate governance. He said that the expert would be in Kosovo by late May or June. He noted that there is still an ongoing debate within UNMIK and the PISG as to whether the POEs should be overseen by an independent holding company under the authority of the Kosovo Assembly, or if the public utilities should be administered by the PISG, with anti-corruption structures and oversight requirements in place to ensure that they follow best practices in corporate governance (ref C).

COMMENT

18. (C) While the outcome of this series of POE board appointments was not ideal, USOP engagement did focus UNMIK and PISG attention on the issue and prevent the worst excesses. We welcome the EC's assistance to help Kosovo draft legislation to ensure that corporate governance best practice principles guide the administration and oversight of the public utilities. Until this legislation is drafted and enacted, USOP will continue to urge both UNMIK and the PISG to take seriously their respective responsibilities to protect the integrity and viability of POEs, which are

important to Kosovo's economic development because they will attract serious foreign investment once they are concessioned or fully privatized.

19. (C) COMMENT, Cont. It is increasingly apparent that UNMIK is m^QeMQ3fjsition efforts ranging widely from protection of cultural heritage sites to corporate governance. We will step in where possible, coordinating our approaches with the International Civilian office and other international missions to maximize leverage wherever possible. END COMMENT.  
KAIDANOW